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Annual Fiscal Report

For The Year Ending June 30, 1983

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
STATE BUREAU OF FINANCIAL OPERATIONS

WISCONSIN

CREDIT:

Wisconsin Department of Development
Division of Tourism
University of Wisconsin-Madison
Center for Health Sciences
Wisconsin Department of Revenue
Division of Research and Analysis

STATE OF WISCONSIN
1983 ANNUAL FISCAL REPORT
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APPENDIX

D.1 Detail of State Government Operations. This has been issued as a separate document. It contains Exhibit B-4 above (Summary of Operations by Function) and Schedules A-1 through A-8 (Summaries of Operations by Individual Functional Areas). Copies of the appendix are available on request to:

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October 7, 1983

Governor Anthony Earl
and
Members of the Legislature

This report presents condensed statements on the financial operations of the State of Wisconsin for the fiscal year that ended June 30, 1983. It shows the major sources of revenue, the broad purposes of expenditures, and the condition and comparisons of funds with the prior year. This marks the second year this report is being published with the inclusion of the State Auditor's opinion.

The June 30, 1982 unreserved balance was $70.8 million. The balance for June 30, 1983 was projected to be $-304.2 million on January 6, 1983. The final unreserved balance on June 30, 1983 is $-182.1 million. This final figure represents a deterioration from June 30, 1982, but an improvement from the mid-year projections. The $122 million change is attributable to both increased revenues and decreased expenditures. Increased revenues of $100 million were experienced. Of this amount, $89 million is derived from taxes and the balance of $11 million is attributable to departmental revenues, interfund transfers, and miscellaneous adjustments. Expenditures were reduced by $21 million, largely as the result of the February, 1983, Governor's directive that state agencies help reduce state spending in light of the state's fiscal problems. An additional $1 million of student loan repayments brought the total to $122 million.

Fiscal year 1982-83 was a period during which the realities of the current economic recession were felt in the State's financial operations. For 248 days the cash resources of the General Fund were inadequate to meet its obligations and it became necessary to borrow internally from other State funds. For 74 days the General Fund had exhausted all legal internal borrowing capabilities and was forced to delay payments to creditors. Interest costs on the interfund borrowings and on payments delayed to localities were $16.6 million, based on Investment Pool rates from 11.67% paid during the first quarter to a low of 9.2% for the ending quarter.

The State continued to finance certain programs through the issuance of general obligation bonds during fiscal 1982-83. $300 million of new bonds were issued with effective interest rates of between 8.01% and 9.19%. The State's building program, the highway construction program, the veterans home loan program and Department of Natural Resources water pollution abatement projects were the primary uses of these funds.

Although fiscal year 1982-83 was a year of continual cash flow problems, one of the responsible actions taken by the incoming administration and the legislature prevented a difficult situation from deteriorating further. The legislature enacted Wisconsin Act 3 on February 18, 1983, which enabled the new administration to deal constructively with the cash flow problems at hand. The act granted more flexibility to the Secretary of the Department of Administration to set policies related to delays or the proration of local assistance payments. The act also raised the ceiling on interfund borrowing from $200 million to $400 million (the restriction still exists limiting interfund borrowing to certain eligible funds). Finally, the act provided statutory authority to issue operating notes to finance short term cash flow shortfalls. A test of the constitutionality of the operating notes was resolved favorably by the Wisconsin Supreme Court in a decision handed down on September 27, 1983.

The deficit of $304 million which was projected at the time the new administration assumed office was the largest in the State's history. During the first six months of 1983, positive actions have been taken to reverse that trend. Steps toward fiscal integrity and stability have been taken in the 1983-85 budget recently enacted. The trend of expenditures increasing faster than revenues has been reversed and a firm, prudent plan for restoring the confidence of the citizens and the financial community in the State's fiscal policies has been established.

For comparative purposes it should be noted that an adjustment to the 1981-83 biennial budget enacted in the statutes included a one-time non-recurring shift of $120 million in school aids from fiscal year 1981-82 to fiscal year 1982-83. A reconsideration of last year's General Fund unreserved balance to restate this statutory adjustment could give a more comparative view of the net General Fund condition.

In addition to the enhancements included in the budget and those pertaining to cash flow management, other new and better ways of managing the State's financial resources will be and are currently being made. We are working with the federal government to expedite our reimbursements for federal program expenditures. In cooperation with the State agencies, a more thorough management of program revenue activities is occuring.

Most importantly, there has been tangible progress during the past year in the State's commitment to conform to generally accepted accounting principles (GAAP). The rewards for achieving greater accountability and financial disclosure through the adoption of GAAP are becoming more pronounced. An extensive analysis, with the assistance of a national consultant, has been completed which addresses the budgetary, accounting and technical changes needed for Wisconsin to conform to GAAP. These challenges will be met over a period of several years following an agency coordinated implementation schedule.

Respectfully submitted,

Doris J. Hanson
Secretary
Department of Administration

George R. Natzke, CPA
Director
State Bureau of Financial Operations

Economic Section

Old World Wisconsin in Eagle exemplifies Wisconsin's interest in preserving its past. The state maintains six additional historical sites: Madeline Island, Old Wade House, Pendarvis, Stonefield Village, Villa Louis and the Circus Museum at Baraboo.

REVENUE HIGHLIGHTS

General fund taxes increased 10.0% in FY 1982-83 over the FY 1981-82 level to $3.77 billion. However, this growth rate was achieved only because of the first full year of impact of the increase in the sales tax rate from 4% to 5%, which became effective in May, 1982. The growth rate for all taxes except the sales tax was a modest 3.9%.

The unanticipated strength of the economic recovery during the second calendar quarter of 1983 and stronger than expected corporate collections resulted in general fund tax revenue exceeding the January 1983 Department of Revenue estimates for the 1982-83 fiscal year by $87.6 million. Actual tax collections were about 2% above the original estimate. Following is a brief description of FY 1982-83 tax collections by major tax program.

Individual Income Tax: Revenue from Wisconsin's largest tax source, the individual income tax, increased only 2.8% to $1.734 billion. This was $34.1 million above the anticipated level. The overall result is a combination of relatively weak economic growth, increased capital gains resulting from stock market increases during the last half of 1982 and revenue losses associated with tax law changes such as the first step of the phase-in of federal capital gains treatment (20% exclusion for 1982, 40% exclusion for 1983 and 60% thereafter), as well as the expanded use of individual retirement accounts (IRA).

General Sales and Use Tax: Sales tax collections in FY 1982-83 increased 25.8% to $1.209 billion or $14.4 million above the estimate of $1.195 billion. Most of the growth is attributable to the fact that FY 1982-83 represented the first full fiscal year with a 5% tax rate. The rate was increased from 4% to 5% and the tax base was slightly broadened effective for the final two months of FY 1981-82. Adjusted for these factors, the 25.8% growth rate translates into a modest 3.9% gain due to economic factors.

Corporate Franchise and Income Tax: Corporate collections in FY 1982-83 increased 5.2% to $339.8 million, compared to $322.9 million in FY 1981-82. This is $39.8 million above the anticipated level of $300 million. A number of law changes in recent years (such as the 10% surtax applicable for the 1982 through 1984 tax years, adoption of the federal accelerated cost recovery system, and changes and requirements for declaration payments) have complicated the estimation of this generally unstable revenue source. The decline in profitability of durable manufacturing corporations was largely offset by increased profitability of some corporations engaged in non-durable manufacturing, retail sales and services.

Excise Taxes: Cigarette taxes increased 11%, to $124 million ($1.1 million higher than estimated). This growth reflects the fact that FY 1982-83 was the first full year with a tax rate of $.25. The rate was increased from $.16 to $.20 effective August 1, 1981 and to $.25 effective May 1, 1982. Potentially as a result of the tax increases, consumption declined 7.6% in FY 1982-83 to 506.6 million packages following a decline of 2.8% in fiscal 1981-82 from peak consumption of 564.3 million packages in FY 1980-81. In addition to the state rate increases, lower consumption is attributed to the federal rate increase from $.08 to $.16 per package effective January 1983.

Liquor and wine taxes declined 12.2% in FY 1982-83 to $32.4 million compared to the estimate of $33.5 million. Most of the decline is attributed to one-time collections in FY 1981-82 associated with the 25% rate increase that was effective August 1, 1981. An adjusted decline of about 2% is attributable to general economic conditions and continued shifting of consumption to wine, which is subjected to a lower tax rate.

Malt beverage (beer) tax collections in FY 1982-83 declined 0.9% to $10.15 million compared to the $10.3 million estimate. An adjusted decline of about 1% was also experienced in fiscal 1981-82.

The tobacco products tax receipts increased 5.5% to $3.8 million compared to the $3.6 million estimate. Fiscal 1982-83 was the first full year for this tax increase which became effective October 1, 1981.

Inheritance and Gift Taxes: Inheritance and estate taxes increased 13.3% to $64.0 million in FY 1982-83 or $2.5 million more than estimated. Gift taxes increased 9.6% to $3.2 million compared to the estimate of $3.0 million.

Insurance Company Taxes: Insurance company premium taxes collected by the Office of the Commissioner of Insurance declined 4.4% in FY 1982-83 to $41.4 million compared to the estimate of $44 million. The decline is attributed to a continuation of intense competition leading to reduced premiums for property and casualty companies. In addition, FY 1981-82 revenue reflects one-time revenue gains due to payment timing changes.

Real Estate Transfer Fees: Real estate transfer fees increased 71% from $5.3 million in FY 1981-82 to $9.0 million in FY 1982-83. Adjusted for the law change which increased the tax rate from $1 to $3 per $1,000 of sale value effective September 1, 1981, the growth rate was 34.6%.

EXPENDITURE HIGHLIGHTS

A summary of General Fund revenues and expenditures for Fiscal Year 1982-83 shows that expenditures exceeded revenues by $267 million. In the prior fiscal year, revenues had exceeded expenditures by $44 million.

During Fiscal Year 1982-83, general fund revenues totaled $6.036 billion compared to $5.565 billion in 1981-82. While general fund taxes increased 10% during the current year, total general fund revenues increased by only 8.5%. Expenditures, however, increased 14.2% to $6.303 billion in 1982-83 compared to $5.521 billion in 1981-82. The major reason for this increase was a 29% or $533 million increase in local assistance.

The final official budget for Fiscal Year 1982-83 projected unused general fund appropriation lapses of $188.9 million. The actual lapsed appropriations totaled $208.5 million, a 10.4% increase. The amount lapsed in fiscal year 1981-82 was $28.4 million.

Additional information on fiscal year 1982-83 expenditures, compared to fiscal year 1981-82 expenditures, is presented in the following discussions of the state's major programs.

University of Wisconsin System. State appropriations for the University of Wisconsin System increased by 8.1% from $479.5 million to $518.5 million in fiscal 1982-83. Systemwide enrollments rose by .7% to a new peak level of 135,559 full-time equivalent students.

School Aids. State general and categorical aids for elementary and secondary education (including aid for public library systems) grew from $792 million in 1981-82 to $1.14 billion in 1982-83. However, these figures include a $120 million general equalization aid payment for 1981-82 that was shifted to 1982-83 to maintain a balanced budget. Correcting for this transfer, state school aid payments increased 12.2%, or $111.2 million, from $912.4 million in 1981-82 to $1.0 billion in 1982-83.

Property Tax Relief. In FY 83 $277.5 million of tax credits were distributed under the Wisconsin State Property Tax Relief Program (WSPTR) to property owners based on the school aid formula and school levies. This is an increase of $45 million from FY 82 and represents growth to the appropriation due to an automatic growth mechanism and initial funding for a new sales tax component of WSPTR which was to eventually earmark one cent of the sales tax to property tax relief. However this supplement was repealed for future years.

Homestead Tax Credit Program. Expenditures for the Homestead Tax Credit Program in FY 83 were $83.7 million or $9.3 million less than budgeted projections and $6.8 million less than FY-82 expenditures. Inflation was a major factor in lower than projected expenditures because fewer people are eligible for the program as incomes increase and benefits to eligible participants are smaller.

Shared Revenue. Expenditures from the Shared Revenue Account increased from $525 million in FY 82 to $640 million in FY 83. This increase in expenditures for unrestricted aid to municipalities reflects the completion of the phased-in consolidation of Machinery & Equipment (M&E) and Personal Property Tax Relief (PPTR) into the Shared Revenue Account. $675 million was budgeted for FY 83 but a veto to the budget bill (Chapter 93, Laws of 1981) provided that $37 million lapse to the General Fund.

Community Aids. Community aids are state and federal funds distributed by the Department of Health and Social Services to counties for various social services. A consolidation of several funding sources, the Community Aids program is the largest aid payment from the state to counties.

FY 1983 expenditures for community aids was $224.6 million, including more than $166.1 million GPR. This represents a 2% increase over FY 1982 expenditures of $220.3 million (including $162.7 million GPR).

Corrections. Total expenditures (all funds) for the operation of state correctional institutions increased 10% from $117.0 million in 1981-83 to $128.8 million in 1982-83. The increase is largely the result of an increase in the number of incarcerated felons from an average daily adult population of 4,222 in 1981-82 to 4,533 in 1982-83. Due to continued overcrowding, the state spent $3.63 million during the year to lease space in Minnesota prisons under the Interstate Corrections Compact.

In January 1983, the two juvenile correctional institutions were converted from 100% GPR funding to 80% PRO/20% GPR. The program revenue is derived from charges to the counties placing juveniles in state institutions. As a result of the mid year change, $4.9 million in corrections GPR expenditures were shifted to PRO. At the same time, GPR payments to counties under the community youth aids appropriation were increased by a like amount. Youth aids funds are allocated to allow counties to provide their own services to juveniles or purchase services from the state.

Aid to Families with Dependent Children (AFDC). The Aid to Families with Dependent Children (AFDC) program is the major income maintenance program designed to provide income support for families with children who have been deprived of adequate support

because of the continued absence from the home, incapacitation, death or unemployment of the parent. In FY 1982-83, expenditures for the program totaled $447.4 million. Of this total, $272.8 million were federal funds and $174.6 million were state GPR funds. This level of expenditures represents a 12.1% increase over 1981-82 expenditures. The primary cause of this sizeable increase was a dramatic upsurge in the number of unemployed families receiving benefits under the program. This increase in the unemployed parent caseload was a result of the economic recession experienced in the state.

Medical Assistance. The state and federally funded Medical Assistance program provides medical care for certain categories of low income persons in Wisconsin. In FY 1982-83, expenditures for the program totaled $876.5 million. Of this amount, $504.4 million were federal funds and $372.1 million were state GPR funds. This level of expenditures, a 2.9% increase over 1981-82 expenditures, marks the second year in a row that Medical Assistance expenditure increases have been relatively small. The 1981-82 increase was 1.0%. These increases are in direct contrast to those experienced between 1970-71 and 1980-81 when annual increases averaged nearly 20%. While the exact causes of this slow-down in expenditures are difficult to determine, some possible contributing factors include declining caseloads, especially in eligible AFDC persons; a static nursing home population; efforts made over the past few years to restrain growth in the rates paid to medical care providers; and implementation of other cost containment measures including anti-divestment provisions, recipient copayments, and benefit reductions and restrictions.

WISCONSIN INVESTMENT CLIMATE

Taxation Reform

State government has been active in creating the conditions for progressive development. A good illustration of this effort is the state's taxation reform from 1974 through 1983. Slow growth led to the targeting of tax reform as necessary to promote expansion in the manufacturing section.

In 1974 Wisconsin exempted manufacturing machinery and equipment from property tax. What followed was a dramatic rise (3.2%) in manufacturing jobs in the State while the U.S. as a whole suffered a 3.6% loss. Labor Department employment figures show that in 1983 Wisconsin's employment rate remains the highest among the Great Lakes States.

Positive business tax law changes have been made in every legislative session since 1974. The 1981 legislative session reduced capital gains and inheritance taxation and 1983 Wisconsin Act 27, the recently enacted budget, provided a research and development tax credit.

A 1982 Wisconsin Department of Revenue study shows that the total tax liability for Wisconsin corporations is less than in other Great Lakes States.

A 1983 study by the Joint Center for Urban Studies of MIT and Harvard University found that Wisconsin's relative reliance on business taxes (i.e. ratio to total state-local taxation) ranked it 47th in the nation.

Development Incentives

Wisconsin has taken steps over the past decade to further enhance local jurisdictions tax base and thus ensure the financial infrastructure vital to economic development. In 1981, the need-based system of state revenue-sharing with local governments was further refined. The state shared revenue formula is designed to enable all municipalities and counties to finance an adequate level of public services. Consequently, low-tax-base communities, such as central cities, are in a better position to attract private capital investment than are many older cities in other states.

Some of the other state enacted incentives included the property tax exemption for manufacturers' and merchants' inventory, an income tax credit for sales and use taxes paid on fuel and electricity used in manufacturing, sales and property tax exemptions on pollution abatement equipment and waste treatment facilities, a change in the sale factor in the apportionment formula from a single-to-double-weighting to encourage the relocation of plants to Wisconsin, and an exemption for intercorporate dividends.

In addition, the 1983-85 budget included several non-tax initiatives to provide for the long-term health of the Wisconsin economy. A $900,000 "quick-start" training program was established to meet customized vocational training needs in new and changing industries. A new $2 million technology development fund was created to provide funding for industry-university research efforts and encourage new relationships between the private sector and our institutions of higher learning.

Economic Components

The economic triad of manufacturing, agriculture and tourism has established and maintained Wisconsin businesses in a relatively strong position within the American economy.

Manufacturing

Manufacturing, the dominant sector in Wisconsin's economy, provides about 500,000 jobs - 28% of all employment in the State. Shipments from Wisconsin manufacturers were at $54.7 billion (1981) - about 3% of the U.S. total. International exports of manufactured goods are valued at over $6.6 billion (1981).

Agriculture

Agriculture accounted for $5.2 billion in cash receipts in 1982. State farm income is drawn from three major sources - dairy products, meat processing and cash crops. Dairy products provide about 60% of farmers' income and make Wisconsin the national leader in the production of milk, milk products and cheese. Wisconsin is now the national leader in acreage devoted to vegetables for processing and usually leads in the production of sweet corn, green peas, snapbeans and beets.

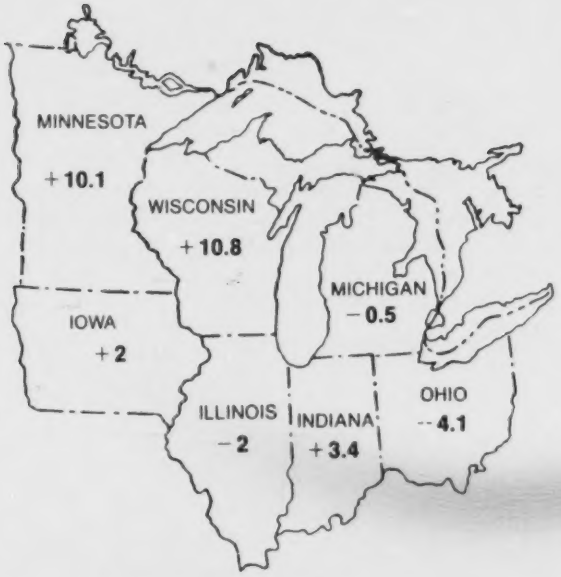
Tourism

Endowed with many lakes, streams, forests and places of natural beauty and historical interest, the State is ideal for recreation and tourism. Wisconsin ranked ninth as a tourist destination in the most recent survey, receiving 3.5% of all trips taken in the U.S. Approximately ten million people visit Wisconsin annually.

Business Environment

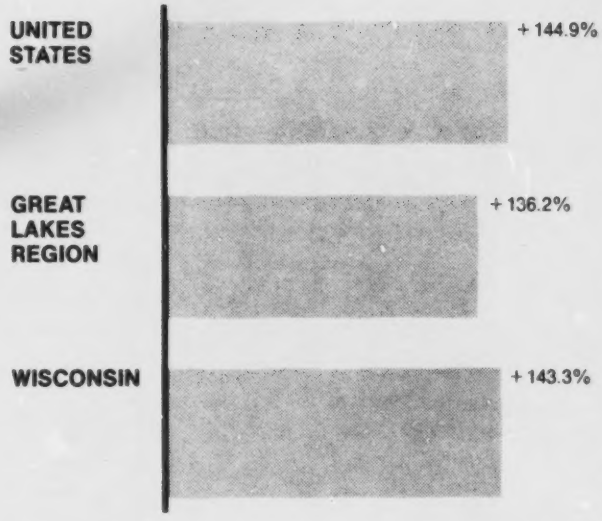
Wisconsin gained both people and jobs during the last decade. Our pre-recessional economic performance was among the best in the nation. Current growth continues with Wisconsin sharing the lead for the best growth of all the Great Lakes states. The Bureau of the

THE CHALLENGE AHEAD . . . . .
Projected Population Change
1980 - 2000



Census has projected Wisconsin's population growth to be the highest of all Great Lakes states during the next 20 years.

PER CAPITA INCOME CHANGE
1972 to 1982



Similar leadership was reflected by growth in personal income, per capita income and average weekly earnings.

WISCONSIN
Labor and Population Increases
1972 to 1982